
SUGA: LIKELY THE MOST PRO-THIRD ARROW REFORM PM IN JAPAN'S HISTORY

Despite major improvements over the last two decades, some critics will always doubt the progress of economic reform in Japan. Certainly, the country still operates on a more regulated basis than the US, and progress never surges all at once, but **Suga is likely the most pro-Third Arrow reform PM in Japan's history**. Indeed, Junichiro Koizumi was highly committed to reforms in 2001-2006 as PM, but lacked the muscle and expertise to get much accomplished, whereas **Suga is an expert in fighting bureaucratic resistance, and even that has declined since he and Abe put so many allies in high-ranking positions during the past eight years**. More than anything else, his long-held commitment to reform and the ability to implement such is what Suga is famous for, beyond his work-ethic and policy expertise. Indeed, he is likely feared more than loved by politicians and bureaucrats, while of course being highly respected. **Thus, his odds of success are very high if given enough time by the LDP**. Unfortunately, the odds are far from zero that the LDP will begin infighting that leads to a short term for him and a return to volatile leadership, but it seems reasonably safe to conclude that such will not occur.

Another factor that should enhance Third Arrow progress is that Abe often seemed hesitant to act too boldly for economic reforms because he wished to remain extremely popular among voters and politicians (often with vested interests) in order to achieve the Diet super-majority necessary to revise the military aspect of the constitution. Under Suga, this does not apply, as he places less urgency on this matter.

Also, a critical factor both for his landslide victory and support for a longer tenure is his deep experience in dealing with the virus, which is the top priority of voters, most of whom likely will disapprove of politicking and new elections until the virus is truly under control. Some may say that Japan has made mistakes in dealing with the virus, but what country hasn't? Overall, Japan's experience with both controlling the spread of the virus and the lack of major lockdowns has been excellent, especially given the average age of its population.

In order to solidify his position, he must quickly deliver on some popular economic reforms and has likely already created a battle plan for a few. Lowering mobile phone costs likely are first on the list, as such will be the most popular with voters. Emphasis on the digitalization of the economy and antiquated government services is also likely popular and, thus, next on the list. He does not consider himself as a short-term caretaker and knows that he is somewhat lacking in the typical forms of charisma; however, if he corrals the credit for improving the virus situation and enacts a few reforms, voters may de-emphasize form and charm vs. substance and success. If so, as he is keeping the other faction leaders content and his main rivals out of the cabinet, his likely enhancement of Abenomics could well keep him in power for three years and allow him to groom a reform-minded successor.

Perhaps the greatest potential trouble for Japan, and thus Suga, is a strong yen. Fortunately, Taro Aso's continuation as Finance Minister should worry yen bulls, as Aso, whose ministry controls currency policy, is likely the most anti-yen-strength politician in modern history. Suga is also anti-yen strength, but Aso's long, consistent history on this issue and general willingness to go "above and beyond" to stop yen strength has an even more powerful effect on markets. Also, it would not be surprising if BOJ Governor Kuroda, whose post is unaffected by political changes and is also very anti-yen strength, surprises the market with increased aggressive monetary policies in the months ahead as the yen-dollar rate is already nearing the limit of these leaders' tolerance.

With the exception of several major telecom stocks, Japan's risk markets so far seem pleased with Suga's ascendancy. Investors surely note that Japan continues to have one of the most stable political situations in the developed world and if he can, as we expect, supplement Abenomics with progress on some key reforms, it should, along with the Buffett fillip, stimulate investors, both foreign and domestic, to raise economic growth and equity market return expectations, with the obvious caveat of the progression of the virus and global economy. Indeed, it is even very possible that investors could become decidedly enthusiastic about Japan.

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